THE FREEMAN

IDEAS ON LIBERTY

A Christian Speaks Up for Capitalism

Churches and the Social Order

Farming Is a Business

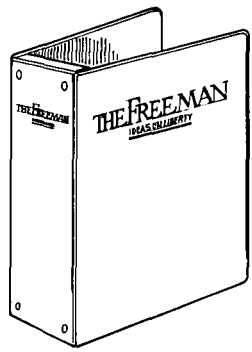
Information and the Economic Problem

AUGUST 1986

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Ways to Save "The Permanent Things"

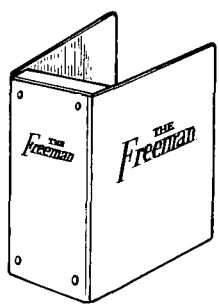
1. New *Freeman* binders, to keep your issues of *The Freeman* together and close at hand



- especially designed for the new format and size
- leather-look covering, gold-embossed with *The Freeman*
- each binder holds twelve issues in the new, larger format

Special price of $5.00
order number 0202XX
for the current, larger size *Freeman*

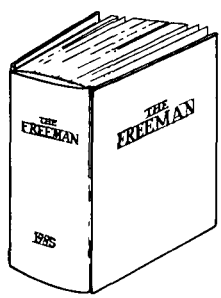
Binders are still available for the former, smaller size *Freeman*. order number 0201XX **$5.00**



Note: Please be sure to specify which size you need: the larger size for the current *Freeman or* the smaller size for previous years. If not specified, we will assume you want the new size for your current issues of *The Freeman.*

---

2. The 1985 *Freeman* bound volume



- All twelve issues in one volume
- Attractively sewn with hard cover
- Fully indexed for handy reference to the latest literature on freedom

Only $7.50 each
order number 0185CF

(Bound volumes for 1969 through 1984 are also available for $7.50 per volume.)

FEE pays all postage on prepaid orders.

Order from:

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

CONTENTS
AUGUST
1986
VOL. 36
NO. 8

284 **A Christian Speaks Up for Capitalism**
James D. Gwartney
Capitalism reinforces Christian virtues, improves living standards, and provides for minority views.

286 **Churches and the Social Order**
Edmund A. Opitz
A free society is built around a nucleus of people of intellect and integrity.

294 **Farming Is a Business**
Clarence B. Carson
Government intervention disrupts the business of agriculture.

300 **Information and the Economic Problem**
Brent M. Johnstone
The price system is an essential means of communicating information.

306 **The Failure of the "Middle Way"**
José Ítalo Stelle
Government intervention undermines the rule of law.

308 **Air Transportation: More Government = Less Safety**
Harry P. Wolfe and John Semmens
From the earliest days of aviation, the market has provided strong incentives for consumer safety.

312 **Privatization: The Rediscovery of Entrepreneurship**
William H. Peterson
The privatization movement around the world.

317 **A Reviewer's Notebook**
John Chamberlain
A review of "Witnesses at the Creation: Hamilton, Madison, Jay, and the Constitution," by Richard B. Morris.

319 **Other Books**
"Audio Classics—The Wealth of Nations," script by George H. Smith.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE FREEMAN
IDEAS ON LIBERTY

Published by
The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
President of
the Board: Robert D. Love
Vice-President
of Operations: Robert G. Anderson

Senior Editors: Beth A. Hoffman
Brian Summers

Editorial Adviser: Paul L. Poirot
Book Review Editor: Edmund A. Opitz
Contributing Editors: Howard Baetjer Jr.
Bettina Bien Greaves
Gregory F. Rehmke
Joan Kennedy Taylor

The Freeman is the monthly publication of The Foundation for Economic Education, Inc., Irvington-on-Hudson, NY 10533 (914) 591-7230. FEE, founded in 1946 by Leonard E. Read, is a nonpolitical educational champion of private property, the free market, and limited government. FEE is classified as a 26 USC 501 (c) (3) tax-exempt organization. Other officers of FEE's Board of Trustees are: Bruce M. Evans, chairman; Thomas C. Stevens, vice-chairman; Joseph E. Coberly, Jr., vice-president; Don L. Foote, secretary; Lovett C. Peters, treasurer.

The costs of Foundation projects and services are met through donations. Donations are invited in any amount. Subscriptions to *The Freeman* are available to any interested person in the United States for the asking. Single copies $1.00; 10 or more, 50 cents each. For foreign delivery, a donation of $10.00 a year is required to cover direct mailing costs.

Copyright © 1986 by The Foundation for Economic Education, Inc. Printed in U.S.A. Permission is granted to reprint any article in this issue, except "Privatization: The Rediscovery of Entrepreneurship," provided appropriate credit is given and two copies of the reprinted material are sent to The Foundation.

Bound volumes of *The Freeman* are available from the Foundation for calendar years 1969 to date. Earlier volumes as well as current issues are available on microfilm from University Microfilms, 300 North Zeeb Road, Ann Arbor, MI 48106.

The Freeman considers unsolicited editorial submissions, but they must be accompanied by a stamped, self-addressed envelope. Our author's guide is available on request.

PERSPECTIVE

Seize the High Ground

If liberty is to prevail in its intellectual struggle with socialism, its friends must *seize the high ground of morality.* The free market, private property, minimal government approach to society is right morally. All the varieties of socialism, interventionism, forced welfare, redistribution, and so on—any interferences with the peaceful pursuit of happiness—are wrong. Over and over again, friends of liberty must point out, politely but steadfastly, that all interventionist schemes are wrong because they require a gun to be pulled on peaceful people. The socialists have had the high moral ground too long, because no one has opposed them. They cannot hold it in the face of reason and clearly articulated principle.

The principle of liberty and property—the right of all people to use their own lives and possessions in peaceful pursuit of the good as they see it—is a sacred principle not to be compromised. It is the foundation on which the just and happy society is built. We must stress its importance, and the disasters that occur when we tamper with it.

One Sunday morning last year, when the New York *Times* carried its heart-wrenching, front page picture of Ethiopian refugees trudging across baked wastes toward the Sudan, a friend asked if I would not justify taxation for such a good cause as the relief of those emaciated souls. Shouldn't the right to property come second to relieving suffering of that magnitude?

I replied that the Ethiopians were starving precisely because their right to property had been put second. To endorse taxation for the relief of the starving Ethiopians would be to endorse the essential moral wrong that underlies their starvation.

Any person who proposes government force against peaceful people

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

should be reminded politely but firmly that the principle is wrong. The means are wrong. They are not allowable, whatever the ends. Eventually those means lead to destruction.

—HB

Inflation in Brazil

Brazil attracted worldwide attention several years ago when it adopted "indexation" in the attempt to make inflation tolerable for the masses. This scheme provided for wages, salaries, rents, and mortgage payments to rise automatically each month to compensate for the inflation. However, the government did not halt the monetary expansion via the printing press or bank credit. Thus the economic crisis continued, with the irregularities and inequities inflation always brings.

To alleviate the developing crisis, the Brazilian government has now adopted new measures to freeze prices and control salaries. And it has introduced a new currency, the "cruzado." However, according to *Visão*, a leading Brazilian news magazine, "The real cause of inflation—excessive expenditures by the Government financed by the printing of new money—is not even considered." *Visão* goes on to say that "The official position . . . gives no assurances that the Government will cease its inflationary tactics while the prices are being frozen. So, what we have is 'repressed inflation,' . . . which only helps to camouflage the present crisis."

Visão compares the situation in Brazil to that in Chile under the Marxist regime of Allende. "A feeling of general animosity has been raised against the business community and the supermarkets and department stores have been the targets of mob violence." *Visão* equates the Brazilian government's economic package with "a leftist coup . . . an extreme case of State intervention in the economy and an assault on individual rights."

—BBG

The Tin Cartel

The tin cartel recently collapsed—under the weight of human ingenuity. The International Tin Council (ITC), which consisted of 22 member nations, worked to hold the price of tin above market-clearing levels. The ITC relied on a "buffer stock" of tin purchased or contracted for to smooth out fluctuations in tin prices and to hold prices up. But artificially high prices proved to be the cartel's undoing.

In addition to calling forth new supplies of tin from previously undeveloped sources, higher prices spurred changes on the demand side. Every increase in the price of tin brought new minds to bear on the "tin problem," searching for ways to use less and to substitute alternate materials.

High prices led to so many innovations in the use of tin substitutes that tin deposits are now less valuable than they otherwise would have been. As a recent *Wall Street Journal* article pointed out, tin cans have lost their place as the primary container for beverages, and that change probably is irreversible.

Human ingenuity created the myriad uses for tin, and this same ingenuity has discovered substitutes for tin. The rate of discovery and substitution is related to the price of tin and the prices of substitute materials. If prices are held artificially high, as was done by the ITC, they convey false information about the availability and mining costs of tin.

Thanks to the International Tin Council, and the entrepreneurs who reacted to higher prices, there are now fewer uses for tin, and more for aluminum, plastic, and paper.

—GFR

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A Christian Speaks Up for Capitalism

Christianity and capitalism as allies rather than enemies.

by James D. Gwartney

James D. Gwartney is Professor of Economics at Florida State University and an Associate of the Political Economy Research Center.

Many Christian leaders—evangelical, mainline Protestant, and Roman Catholic—appear to have a feeling that capitalism is unfair and needs more government intervention to keep it humane. While many of us who are both Christians and economists consider this view misguided, we sometimes lack arguments to help change this view. I'd like to offer a few.

What I am defending when I speak of capitalism is a social order that provides for the protection of one's possessions as long as they are acquired without the use of violence, theft, or fraud; and that relies primarily on free-market prices to allocate goods and services—the fundamental social system of the United States. Here are some reasons why Christians might think more charitably about it:

Capitalism rewards and reinforces service to others. Under capitalism, a person's income is directly related to his or her ability to provide goods and services that enhance the welfare of others. Business winners are those who figure out what customers want and offer them a better deal than they can get elsewhere.

Moreover, such enterprises put pressure on other businesses to serve customers better—as you know if you have observed how retailers respond to the opening of a new discount store. Of course, people in business do not have to care about other people, as Christians are directed to do. But if they want to succeed, they must serve their customers better than the competition. In essence, competition forces business people to act *as if* they care about others.

Capitalism provides for the masses, not just the elite. To succeed in a big way under capitalism, you have to produce something that appeals to many people. Henry Ford became a multi-millionaire by bringing a low-cost automobile within the budget of mass consumers. In contrast, Sir Henry Royce died a man of modest wealth. He engineered a far superior car to Ford, the Rolls Royce, but he designed it for the rich. The market rewarded him accordingly.

Capitalism provides opportunity for achievers of all socio-economic backgrounds to move up the economic ladder. It is no coincidence that poor people around the world flow toward capitalist countries rather than away from them. Poor Mexican laborers risk their lives for work opportunities in the U.S. In Europe, the Soviets built a wall to keep people from the capitalist West. In Southeast Asia, people are drawn to Hong Kong, Taiwan, Thailand, and other capitalist countries. Why?

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Because capitalism provides opportunity for those who want to achieve.

In the U.S., previously poverty-stricken refugees are succeeding as restaurant operators, taxicab drivers, and business entrepreneurs. A recent study found that nearly half of the families in the bottom one-fifth of the U.S. income distribution in 1971 made significant moves up the income ladder by 1978. No other system provides more opportunity for advancement, with fewer built-in social rigidities.

Downward movement takes place, too: Riches today do not guarantee success tomorrow. Like the God of Christianity, capitalism is "no respecter of persons."

Capitalism provides for minority views. When decisions are made politically, minority views are often suppressed. For example, in a public school system the political majority decides whether prayer will be allowed, whether sex education will be taught, and how much emphasis to give to basic skills. Those who do not like the decision must either give in or pay for education twice, once as a taxpayer and once in the form of private tuition.

A market system would allow each minority to get its way. For example, without interfering with others' freedom, some parents could send their children to schools that allow prayer. Committed Christians, who often find themselves in the minority, should appreciate this aspect of capitalism, which permits people to pursue divergent goals without conflict or rancor.

Even those who accept these strengths may still feel that capitalism is too materialistic. It is true that this system enables people to attain prosperity, and some people get caught up in the pursuit of wealth. But capitalism does not force individuals to worship "the almighty dollar." A person is as free to be an ascetic Christian as to be a hedonist.

Christians sometimes argue that capitalism promotes inequality, working to the advantage of the rich. Yet inequality is present under all economic systems. The people with better ideas, more creative minds, and more energy will tend to rise to the top in a socialist bureaucracy just as they will in a capitalistic system.

However, elites in a capitalistic system actually have less power than elites in a system where the government predominates. Even in a democracy, elected officials have more power over the lives of others than the wealthiest individuals do. Members of Congress have the power to take a portion of our earnings without our consent, something that David Rockefeller or the Hunt brothers cannot do, no matter how rich they are. Furthermore, if wealthy individuals use their wealth unproductively—that is, for consumption rather than investment or to supply things other people reject—their wealth will shrink over time. Even a "fat cat" living off stock dividends receives those dividends only if the business provides things that people want.

Of course, capitalism does not impose the moral demands that Christianity does. But economic systems seeking to perfect human nature have more often led to tyranny than to bettering the human race. Christians would do well to settle for an economic system that reinforces Christian virtues, improves living standards, and provides for minority views. Capitalism is such a system. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Churches and the Social Order

The church plays an important role in human life.

by Edmund A. Opitz

The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies, Not Enemies.*

It was once the unwritten rule in polite society that two topics have no place in civilized conversation; religion and politics. It was ill-bred to discuss religion; it was gauche to talk politics. But times have changed. We live in a different and more open age. Now we discuss religion for political reasons, and we talk politics for religious reasons! The Bishops issue a Letter; the highest dignitaries of the various denominations pronounce on matters of government and business. The people behind these proclamations represent only a tiny minority of the total church membership, but they presume to speak for everyone. What they say is, in effect, the Socialist Party platform in ecclesiastical drag.

These ecclesiastical documents focus on an economic malaise, poverty; the poverty of the masses, especially the masses of the Third World. Churchmen profess to know the cause of this poverty. Third World poverty is caused by the wealth of the capitalistic nations; *they* are poor because *we,* in becoming wealthy, have pauperized them. Likewise, within our own nation the wealth of those who are better off is gained at the expense of those who are made worse off in the process. These are the typical allegations: the rich get richer by making the poor poorer.

Ecclesiastical myopia views the market economy—or capitalism—as an evil system which, by its very nature impoverishes the many as the means by which the few are enriched. The suggested cure for these differentials in wealth is to use government's power to tax to exact tribute from the rich, and then distribute the proceeds to the poor—minus the cost to the nation of these wealth transfers. Robin Hood robs the rich to pay the poor, but Robin takes his cut!

It is as if these churchmen had swallowed the current secular agenda to which they have merely added oil and unction; as if social reform were the end, religion the mere means; as if religion has little more to offer modern men and women beyond what they can get from contemporary liberalism or socialism. The church has a more important

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

role to play in human life, as I shall suggest in the course of this article.

One of my favorite modern theologians is the late William Ralph Inge. Inge was the Dean of St. Paul's Cathedral in London, the scholar's pulpit of the Church of England. Dean Inge wrote some notable books in theology, philosophy, and social theory, but he was also a newspaper columnist during the 1920s where his hard-nosed comments on the passing scene earned him the nickname, "the gloomy Dean."

Christian Socialism was strong within the church of England, with some churchmen going so far as to declare that for a Christian not to be a socialist was to be guilty of heresy. A popular slogan was "Christianity is the religion of which Socialism is the practice." Dean Inge would have none of this, so he waged a perpetual war of words against the socialists, especially against socialists of the Christian variety. "I do not like to see the clergy," he wrote, "who were monarchists under a strong monarchy, and oligarchs under the oligarchy, tumbling over each other in their eagerness to become court chaplains to King Demos. The black coated advocates of spoliation are not a nice lot!"

It was not that Dean Inge was a defender of the *status quo;* far from it. Inge was a severe critic of many features of the modern western world. He argued that socialism is little more than a logical extension of many of the worst features of the modern temper, derived from the French Revolution, with its inveterate faith that man is a good animal by nature, but corrupted by his institutions; "Man is born free, but is everywhere in chains," as Rousseau put it. This being the case, said the socialists, all we have to do is change our institutions in order to produce an improved society out of unimproved men and women.

Dean Inge foresaw a tendency within this mind-set toward "a reversion to a political and external religion, the very thing against which the Gospel waged relentless war." It is not that Christianity regards social progress as unimportant, Inge goes on to say; it is a question of how genuine improvement may occur. "The true answer," he wrote, "though it is not a very popular one, is that the advance of civilization is in truth a sort of by-product of Christianity, not its chief aim; but we can appeal to history to support us that [the advance of civilization] is most stable and genuine when it is the by-product of a lofty and unworldly idealism."

The Pull of Public Opinion

Churchmen in every age are tempted to adopt the protective coloration of their time; like all intellectuals, churchmen are verbalists and wordsmiths; they are powerfully swayed by the printed page, by catch words, slick phrases, slogans, and bumper stickers. In consequence, they are pulled first this way then that by whatever currents of public opinion happen at the moment to exert the greatest power over their emotions and imagination. Today, it is the powerful gravitational pull of "environmentalism."

I'm using the word environmentalism as a label for the belief that the human species is nothing but what external conditions have made us, that we are the victims of circumstances, that our lives are determined by forces we can barely understand, let alone control. Random chemical and physical interactions produced mankind in the first place. Then this raw material—mankind as it comes from nature—is shaped into various forms by the particular society in which we find ourselves. The social class to which we belong determines, finally, what we are

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and how we view the world and ourselves. Environmentalism exerts a powerful attraction today over intellectuals of all creeds. It is the ideology of Marxists and non-Marxists alike that men and women are the mere end products of nature and society—responsible men and women no longer—and that social engineering can construct a perfect society out of defective human units. Environmentalism has the cart before the horse; it is dehumanizing.

If there is disorder in our society it follows that there is disorder within our very selves, in our faulty thinking and erroneous beliefs, in our misplaced loyalties and misguided affections. Disharmony in our personal lives will result in conflict and frictions in society. This is why serious religion has traditionally focused on the inward and the spiritual, on the mind and conscience of individual persons, to make them responsible individuals. The premise is that only right beliefs rightly held can produce right action. The good society emerges only if there is a significant number of people of intellect and character; and the elevation of character is the perennial concern of genuine religion, in league with education and art.

But the modern world views the matter differently. The modern world assumes that the human species is the mere end product of external forces; a product, first of all, of physics and chemistry—our natural environment; and a product, secondly, of the particular society in which an individual happens to live. The basic assumption is that man's character is made *for* him, by others; no individual is really responsible for himself. It is only necessary, then, for "the others" to acquire political power and use it to create social structures designed to produce a new humanity. Transform external arrangements and—according to this ideology—it matters little if men and women remain unregenerate; they will behave correctly because their institutions have programmed them to act according to the blueprint. This is the modern heresy.

Christianity, rightly understood, stands for a society with such basic features as personal responsibility, equal justice under the law, and maximum freedom for every person—the kind of society envisioned by the 18th-century Whigs like Burke, Madison, and Jefferson. Such a social and political order as the Whigs had in mind lays down the conditions in a nation which permit the operation of one kind of an economic order only, the free market economy—later nicknamed capitalism—the thing described by Adam Smith.

Adam Smith

The economic order which Adam Smith challenged was called Mercantilism. Mercantilism was the communism or socialism or planned economy of the 17th and 18th centuries. The nation was covered with a network of minute regulations controlling every stage of manufacture and exchange, and the controls were brutally enforced, as they must be in every planned economy; in a 73-year period in France, 1686 to 1759, approximately 16,000 people were put to death for some infraction of the government regulations over the economy.

Adam Smith set out to free the economy with what he referred to as his "liberal plan of liberty, equality, and justice." (p. 628) It is more than a coincidence that *The Wealth of Nations* and the Declaration of Independence appeared within a few months of each other, in the

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

year 1776. The Declaration endorses the Whig political vision whose main features were voiced by Jefferson in his First Inaugural: "Equal and exact justice to all men, of whatever state or persuasion, religious or political; peace, commerce, and honest friendship with all nations—entangling alliances with none . . . freedom of religion, freedom of the press, freedom of the person under the protection of the habeas corpus," and so on. This was the political and legal framework laid down by the Whig theorists, within which Adam Smith's free market economy, or capitalism, had the freedom necessary if it was to function—his "liberal plan of liberty, equality and justice."

Millions of people during the 20th century have turned away from the traditional religious faiths of the West—Christianity and Judaism—to embrace some form of secular religion, such as communism or socialism. The prevailing world view in our time is not Theism—the belief that mind and spirit are rock-bottom realities in the universe; it is Materialism—the belief that basic reality is composed of nothing else but particles of matter.

Materialism is explicit wherever Marxism is the official creed, but it is implicit almost everywhere else. Begin with the Marxist premise of Dialectical Materialism—or any other variety of Materialism—and some form of totalitarianism logically follows. Such a society reduces human persons to minions of the state, to be used and used up in the utopian endeavor to bring about the classless society of the communist pipe dream. Christian doctrine, by contrast, makes the individual person central. His role in life is to serve the highest value he can conceive—God; the modest role of the political order is to provide maximum freedom for all persons in order that we, as created beings, may achieve our proper destiny.

The Theocratic Temptation

In the free society, church and state are independent of one another, as set forth in the First Amendment. But there is, historically, a perennial temptation for church and state to join forces and form a theocracy—an alliance which tends to divinize politics and depreciate genuine religion. We are moving in that direction.

The church has been allied with the state ever since the fourth century, and this church-state combination has often been less than Christian in its treatment of Christians, and others. Edward Gibbon, the 18th-century historian, is only one of the many scholars who have chastised the official church for its misdeeds. But listen to Gibbon when he refers to original Gospel Christianity; he speaks of ". . . those benevolent principles of Christianity, which inculcate the natural freedom of mankind." (Vol. I, p. 661)

The idea of Christian freedom came into sharp focus in the preaching of 18th-century clergymen in New England. F. P. Cole, an historian of the period, writes: "There is probably no group of men in history, living in a particular area at a given time, who can speak as forcibly on the subject of liberty as the Congregational ministers of New England between 1750 and 1785."

It was the custom of the New England clergy to preach twice a year on some theme having to do with the secular order, the Artillery Day Sermon and the Election Day Sermon. These scholarly sermons were published by the Massachusetts General Court, as the legislature was then called, and they have provided the raw material for many a doc-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

toral dissertation. Let me offer a typical statement by one of the ablest of these preachers, Jonathan Mayhew of Boston, in 1752. "Having been initiated in youth in the doctrines of civil liberty, as they were taught by such men as Plato, Demosthenes, Cicero, and other renowned persons among the ancients; and such as Sydney and Milton, Locke and Hoadley among the moderns, I liked them; they seemed rational. And having learnt from the Holy Scriptures that wise, brave, and virtuous men were always friends of liberty,—that God gave the Israelites a king in His anger, because they had not the sense and virtue enough to be a free commonwealth,—and that 'where the spirit of the Lord is, there is liberty'—this made me conclude that freedom was a great blessing."

Religion and the Founders

Most of the men we refer to as our Founding Fathers were not active churchmen, for one reason or another, but they were men of strong religious convictions. Norman Cousins has compiled a 450-page anthology of the religious beliefs and ideas of eight of these men in their own words. (*In God We Trust,* 1958) Those quoted are Franklin, Washington, Jefferson, Madison, the two Adamses, Hamilton, and Jay. There's also a section devoted to Tom Paine. A familiar statement of Jefferson pretty well summarizes the outlook of this remarkable group of men. "The God who gave us life, gave us liberty at the same time."

Tom Paine authored some influential political pamphlets, and he also wrote a great deal on the subject of religion, much of it critical—which is all right, because there is much about the ecclesiastical life of any period which deserves criticism. But when it was a matter of Christian liberty, Paine was on target. Cousins, for some reason, does not quote a surprising statement by Paine: "Wherefore, political as well as spiritual liberty, is the gift of God, through Christ." (From his essay "Thoughts on Defensive War")

Alexis de Tocqueville

What was the situation in the 19th century? Let me offer a few remarks by one of the keenest foreign observers ever to visit this nation, Alexis de Tocqueville. Tocqueville landed in New York in May, 1831. Nine months and seven thousand miles later he returned to France and wrote his great book, *Democracy in America,* with special attention being given to religion and the churches. "The Americans combine the notions of Christianity and of liberty so intimately in their minds," he wrote, "that it is impossible to make them conceive the one without the other . . . Religion in America takes no direct part in the government of society, but it must be regarded as the first of their political institutions . . . They hold it to be indispensable to the maintenance of republican institutions."

"Despotism may govern without faith," he continues, "but liberty cannot . . . [for] how is it possible that society should escape destruction if the moral tie is not strengthened in proportion as the political tie is relaxed?"

Tocqueville observed that the clergy stayed away from politics. The clergy, he observed, "keep aloof from parties and public affairs . . . In the United States religion exercises but little direct influence upon the laws and upon the details of public opinion; but [religion] directs the customs of the community, and, by regulating everyday life it regulates the state."

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

A Spotty Record

The history of the church during the past two thousand years is a spotty record, with many ups and some downs. There have been glorious epochs, and there have been periods which make for melancholy reading. Occasionally, the church has sanctioned tyrannous political rule; from time to time it has lent its support to persecutions, inquisitions, and crusades. As an arm of the state, or as a tool of the state, it has betrayed its sacred task while it pursued secular goals like wealth and power.

In the 20th century segments of ecclesiastical officialdom and councils of churches demand legislation to transfer wealth from one group of citizens to another. They work for a collectivist economic order planned, controlled, and regulated by government. The intended aim is to overcome poverty and feed the hungry; the means is the planned economy, otherwise labeled socialism, collectivism, the new deal, or whatever. Whatever the label, the planned economy puts the nation in a strait jacket; the planned economy, however noble the intentions of the planners, is the road to serfdom, as F. A. Hayek demonstrated in a landmark book written some forty years ago.

A planned economy forcibly directs the lives of individual men and women, and to do so the state must deprive people of their earnings which they would otherwise use to direct their own lives. Nation after nation during the 20th century has gone in for political planning of the economy and the results have been disastrous; where the planning has been strictly enforced, as in communist nations, the result has been a nation ill housed, ill fed, and ill clothed. It is a sad paradox indeed that the secular program, promoted by church hierarchies to alleviate poverty, has caused poverty in every society which has tried it. The only way to alleviate poverty in a nation is to increase productivity; and increased productivity is generated only by an economy of free men and women. Freedom is an essential part of the church's business. Freedom is a blessing in itself, and it's a double blessing, for prosperity follows freedom.

The socialists, until recently, have claimed the high moral ground. Their boast is that only socialists—or liberals—really care about people. What nonsense! Every person of good will wants to see other people better off; better housed, better fed, better clothed, healthier, better educated, with finer medical care, and all the rest. The dispute between socialists and believers in the free economy is not so much over the goals as over the means by which these goals may be met. The socialist's means—his command economy—will not achieve the goals he says he wants to reach; socialism makes the nation worse off; poorer in material wealth, and poorer in every other respect as well.

There is another route for churchmen to take, a way that leads to more freedom for people in society, rather than less freedom. Freedom is at the heart of the gospel message, and the true genius of our religion was proudly proclaimed by our forebears, some of whose words I have quoted.

Man's will is uniquely free; that's the way God made us. We are free beings precisely in order that each person shall be responsible for his own life and therefore accountable for his actions. It is by acts of will, acts of choice, exercised daily over the course of a lifetime that each of us becomes the person we have the potential to be. Each person is by nature self-controlling; each person is in charge of his own life.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The free society, then, is our natural habitat; freedom in the relations of persons to each other accords with human nature. The tactic of freedom in the business and industrial sectors is the free market economy; the free choice economic system corresponds to the freely choosing creature that each of us is.

Animals, unlike us humans, have a finely tuned set of instincts which infallibly guides each creature according to its species. We humans do not have such elaborate instinctual equipment; instead of instincts we are given a moral code, which we are free to obey or not. Anyone can figure out for himself that no kind of society is possible unless most people most of the time do not murder, steal, assault, or lie. Thus we have commandments that say Thou shalt not murder, Thou shalt not steal, Thou shalt not bear false witness, and so on. These and other commands compose the basic moral code which is the foundation of our law.

Because we are flawed creatures as well as free, we occasionally break the law, and so we need an umpire to interpret and, if necessary, enforce the rules. We refer to this umpire function as the political order—government, the police power, the law. And we have the courts, where honest differences of opinion may be examined and resolved.

The Productivity of Capitalism

The free market economy, or private property order, or capitalism—if you like—is, by common agreement, the most productive economic order. In fact, it's the *only* productive economic order. Socialism in a given country lives by exploiting the previous productive economy of that country, and when that gives out, socialist nations live on largess from capitalist nations.

The incredible productivity of capitalism is generally admitted, even by its critics; it's the way the wealth gets distributed that they complain about. What's wrong about capitalism, the critics charge, is that some people in our society have enormous incomes while other people have to get by on a mere pittance. Disparities in income show up most vividly in the sports and entertainment industries. Take basketball players, for instance. Basketball is a fun game which thousands play for pleasure and recreation. But many professional players make more money in a year than any six of us will make in a lifetime of hard work. Baseball is almost as grotesque, and then the players threaten to strike for more pay! A rock singer gives what is laughably called a concert and more money changes hands in one evening than the Seattle Symphony sees in a year. Supply your own examples. The question is: How can any person with even a modicum of intelligence and refinement condone such grotesqueries? How do we respond to such a critic?

Part of the answer is that in a free society—a social order characterized by equal freedom under the law—the market place becomes a showcase for popular folly, ignorance, superstition, bad taste, and stupidity. The market, in other words, is individual free choice in action, and no one is pleased with everyone else's choices. But our displeasure is a price we must learn to pay if we are to enjoy the blessings of liberty. We must stand firmly behind the processes of freedom, even though we can barely stand some of the products of freedom. So let's stop wringing our hands; let's try to be tolerant, and let's get on with our lifelong task of setting a better example of what freedom means.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Remember that no one is *forced* to pay over good money to watch a sporting event; no one *has* to listen to some hyperkinetic young man howl and gyrate in public places to the accompaniment of amplified sound. You and I might not pay money for such a performance, and if everyone were just like us, those who now make millions playing games would have to go back to sport for its own sake, just like the rest of us. And if a miraculous change in musical taste should occur, there'd be crowds attending Bach recitals every Sunday afternoon on your local church organ.

Turn from the sports and entertainment field to the business and industry sector. Here, too, there are wide variations in wages, income and wealth. How does this come about?

Here's a person with a knack for manufacturing a better mousetrap, which turns out to be just what millions of consumers have been waiting for. They are willing to pay handsomely for this better mousetrap, and so the manufacturer becomes wealthy. His employees also benefit. Our entrepreneur's wealth is voluntarily conferred upon him by consumers who aren't forced to buy the product, but who find that these new mousetraps make their lives safer, better, and more enjoyable. Every step in this procedure—manufacturing, marketing, exchanging—is free and fair, and when this is the case the resulting distribution of rewards is also fair. It is only when someone profits and becomes rich because government gives him a subsidy or provides him with some advantage over his rivals and his customers that there is maldistribution and unfairness in the final result.

Setting a Good Example

Let me emphasize the fact that the free market economy rewards each participant according to the value willing consumers attach to his offering of goods and services. Why does a rock singer make millions while your fine church organist makes hundreds? The answer is obvious; crowds of people would rather pay a lot of money to hear rock than to listen to Bach for free. We may find this intellectual and esthetic wasteland repugnant to our refined sensibilities. But what an opportunity this situation presents to every teacher. I refer not only to full time professors, preachers, and writers. Most anyone can be a teacher. Nearly everyone, in other words, has the capacity to convey a new idea to some other person, to instill a nobler sentiment, a superior value, a higher moral tone. More persuasive than any of these, we can set a good example.

It is a solid truth, I believe, that you cannot build a free society out of just any old kind of people. A free society is built around a nucleus of people of superior intellect and integrity who are, at the same time, cognizant of economic and political reality. You need people who love God and their neighbor; people of understanding and compassion; people with enduring family ties. Our schools and our churches should be producing people of this caliber, for it is the function of education and religion—in the broad sense of both terms—to make us better and wiser men and women. When we have a significant number of wise and good people living lives of a quality high enough to deserve a free society we'll *have* a free society. All the rest of us, riding on their coattails, will reap the rich blessings of liberty. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Farming Is a Business

The rules of economy apply to farming as much as they do to any other business.

by Clarence B. Carson

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books, and has just completed the last of a five-volume text, *A Basic History of the United States.*

The plight of service station operators does not appear to ever have caught the public fancy. Not once in all my years as a diligent TV watcher can I recall having seen a special on the subject, or even a segment on the evening news about the disappearance of the family-operated service station. The television cameras have not focused on any sheriff's bankruptcy sale of some service stations, with the sheriff surrounded by a bunch of surly service station operators protesting the sale. No legislatures or courts have declared a moratorium on foreclosures on service stations, to my knowledge. There are no Federal Service Station Banks to provide easy credit to go into the service station business. And, in all my years of perusing textbooks on American history, I have never encountered even a sentence about "The Service Station Problem," much less a paragraph or a whole section of a chapter.

By contrast—and what makes the above so remarkable—I have seen reams of material over the years dealing with "The Farm Problem." No presidential administration since that of Rutherford B. Hayes, at the latest, has managed to get by without some sort of "Farm Crisis." Every sort of scheme, crackpot or otherwise, to deal with the farm problem has had its advocates, and many a bill has made its way through state legislatures and Congress that was supposed to address the problems of farmers. For more than a hundred years now those who claimed to speak for farmers have proclaimed the responsibility of government to help farmers, and for nearly as long governments have been passing legislation of one sort or another that was supposed to do just that. Inflation—back in the days when everyone understood that meant an increase in the money supply—was once considered to be the panacea for farm problems. Then it was regulation of rail rates, government-sponsored loan programs to provide easy credit, government-sponsored cooperative storage and crop loan facilities, parity payments, subsidies, and so on. No history book worthy of the name is minus sections planted here and there through the accounts of the last hundred years detailing the plight of the farmers. And, according to spokesmen for farmers, the problem is apparently as urgent today as ever, what with declining foreign markets, drops in the prices of farm lands, and widespread farm foreclosures.

It is not my point, of course, that farmers have not had and do not have problems. As far back as my information goes, farmers have always had problems of one sort or another. They have ever been

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hampered in their enterprise by droughts, floods, plagues, disease, fat years when prices fell and lean years when prices might rise but they produced much less. Farmers have been going into debt ever since merchants, factors, or bankers could be found to extend credit, many of them going deeper in debt from year to year in the vain hope that bumper crops could be sold at high prices to rescue them. Anyone who doubts this should study the accounts of American farmers and planters in our own colonial history. There have been many changes in technology and farming methods over the years, but the sort of financial problems encountered by commercial farmers have not changed much.

My point, rather, is that it is not all that clear that farmers differ that much in having problems from the rest of us who are exposed to the exigencies of the market—which is to say all of us, to greater or lesser extent. Even government workers sometimes lose their jobs, and politicians do not always get re-elected. But I started out to contrast farmers with service station operators, so allow me to stick with that for a bit. The woes of service stations over the years must often have been as great as those of farmers. True, many have left farming for other fields, especially over the past fifty years. But the number of service stations that have gone out of business during the same period must be very large, in view of the many abandoned businesses which dot the countryside. Service stations that remain in business also change hands or come under new management from time to time. One of the plaints about farming is that the family farm is disappearing, but service stations may also be operated by families. Whether service station operators are as prone to bankruptcy as farmers, I have no information, but undoubtedly many service station operators do not make a go of the business for one reason or another.

Farming as a Business

The central point I wish to make, however, is that farming is a business. In this crucial respect, it is like a host of other businesses. It has been contrasted with operating a service station not because farming is essentially different but because a great deal of political attention and a large number of political programs have been enacted that were supposed to aid farmers. By contrast, very little notice has been paid to service stations, and except for an occasional piece of legislation dealing with the treatment of independents by suppliers, service stations have rarely been singled out except for restrictive legislation. There are many other businesses for which there are no specific government aid programs: toymakers, for example, candy manufacturers, makers of cereals, and so on. Some businesses have been the objects of government programs which were supposed to aid them, of course, but none so massively, I think, nor over so long a period of time. Certainly businesses, in general, have not usually enjoyed public sympathy in this century; they have much more often been the subject of punitive regulation. Moreover, public opposition to and criticism of aiding other businesses has usually been vigorous.

Thus, it is important to emphasize that farming is a business. This is important for two reasons. First, it brings it into the correct framework for considering the appropriateness of providing aid. Second, it helps to cut away the alleged differences from other businesses. Farm-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The American farmer is in a situation today that can be solved. The solution is not one of governmental policies that create short-term "fixes" for the farmer. The best method to let the farmer prosper is the same solution that would let the other parts of the economy prosper. Government must remove the burdens placed upon the individual. The individual must be allowed to compete on an *equal basis* to become competitive with his peers.

—*Edgar Terry,* a fourth-generation farmer in Ventura, California

ing for the market is a business. It is a business in that farmers use land, labor, and capital for the produce of goods to be sold. Such farming is done in the hope and expectation of profit as are all other businesses. Farmers usually seek to use as little of the scarce elements of production as possible to produce the most of the goods that are wanted (as indicated by price in the market). They seek the widest market for their produce, and thus the highest prices available. Successful farmers keep careful accounts and plan their investments of time and capital so as to maximize their income. Theirs is in no sense more of a charitable undertaking than is operating a service station or providing hundreds of other goods or services. This is not to deny that there are public benefits from farming, but these do not appear to differ from those that attend hundreds of other enterprises.

"The Family Farm"

Probably, a goodly amount of the public sympathy for farmers arises from memories that extend backward into an era when farming was often not so business-like as it has now become. The "family farm" may call up visions of small farms on which growing produce for the market was only an aspect of the undertaking. Such farms often kept a variety of animals—cows, horses, chickens, hogs, perhaps sheep or goats, geese, ducks—for family or farm use. Fruit trees would often provide fruit in season, and a variety of nuts might be produced. All sorts of crops might be grown, some for animal consumption, some for the family, and only one or a few for sale in the market. Such farms would frequently have surpluses of fruits and vegetables to be shared in season with neighbors and relatives. According to lore, and sometimes in fact, these farms were refuges for children who lived in cities and towns, to which they would be sent during summer vacation to spend some time on a farm with relatives, perhaps learning something of ancient virtues and values.

Such farms have mainly gone with the wind, so to speak nowadays. Most farming for the market, whether on family farms or on company or corporation farms, is more or less highly specialized. Many farms today have no farm animals at all. The old-fashioned barn has often

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

been dispensed with entirely. Vegetable gardens are probably no more common on large farms than they are in the suburbs. Machinery has long since replaced most animals for motive power on the farms, and the machinery has become much larger and usually much more highly specialized in function than it used to be. A family farm is distinguished from others, if at all, by the fact that most of the work is done by a single family and that the family lives on the land. Even when there is some diversity in the produce, it is still done on a commercial scale usually. In sum, farming for the market has become commercialized.

The great change in farming generally may have less bearing than might be supposed on government programs for farmers, except for its nostalgic role in promoting taxpayer support to "save the family farm." Actually, most government programs enacted over many years have been devised to affect farming for the market. Almost none of the programs has either sought or been devised to reward or restrict farm production for the family. True, some of the New Deal programs did try to encourage diversification on farms, but to the extent that they succeeded (by restricting the land planted to crops grown for the market), they usually resulted in driving people from the farms. Some loan programs, notably the Farmer's Home Administration, have enabled some people to buy houses on small plots of land, but these are rarely used for any significant farming.

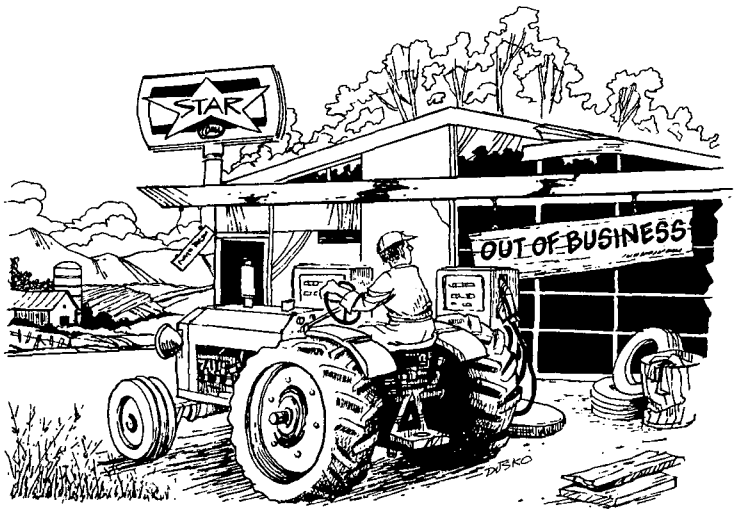
Altering the Market

In any case, most of the agitation for government programs and most of the actual programs have been aimed at altering the market in some way. One of the earliest interventions was an attempt to control freight rates and the prices charged for the storage of grain. These were supposed to help farmers who shipped their goods to market or stored them in the anticipation of higher prices. Currency inflation was aimed almost exclusively at raising farm prices or providing cheaper and easier credit. Parity programs were exclusively market oriented. The same could be said for assorted price support or subsidy programs. The huge government supported loan and insurance programs have been mainly used by farmers to purchase more land, insure commercial crops, or purchase farm machinery needed for large operations. In sum, government programs have usually been for those farming for the market, not for those mainly producing food for the family on family farms.

To say that farming is a business is in no sense to downgrade its importance or to adversely criticize it. Nor do I mean to suggest that because farmers are businessmen, they are not entitled to a full measure of sympathy and understanding for the risks that they take and the benefit they provide for all of us. Farming is certainly a risky business, dependent as it is upon the elements, domestic prices, and changes in foreign markets. More risky than running a service station (or, for that matter, any number of other businesses)? That is by no means clear. Service stations have risks, some of which are different from those of farmers. For example, they are much more apt to be robbed, and location is very important. Beyond these things they are subject to all sorts of exigencies, and work always with highly explosive materials.

But to suggest that farmers deserve our understanding and appre-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED



ciation should not be taken to mean that government should intervene either on their behalf or to restrict them. Farming is a business, and there is an abundance of evidence which suggests that not only is government intervention often harmful to consumers (that is, all of us) but also to those engaged in the particular businesses aimed at by the intervention. That farm programs over the years have benefited farmers is hardly self-evident. Undoubtedly, *some* farmers have benefited from some farm programs. There may even have been instances when farms generally have benefited, *temporarily*, from some particular programs. But that farmers generally have benefited in the long run from government programs could hardly be maintained (leaving out of consideration the cost to the rest of the population).

A Faulty Premise

Farm programs are based on a faulty premise. They are generally premised on the notion that farmers engaged primarily in producing similar sorts of goods constitute a class with common interests. This might be so if they were producing almost exclusively for their own families. But to the extent that they are producing for the market, i.e., to the extent that farming is a business, their interests crucially diverge. A farmer is in competition with all other farmers producing the same type of goods when they enter the market. Wheat farmers are in competition with one another, as are cotton farmers, cattle growers, sugar producers, chicken farmers, and so on through the whole gamut of agricultural production. Each farmer, so far as he is seeking a profit in the market, seeks to produce and sell as much as he can for the highest price at the lowest cost to himself.

Any government program premised on the notion that those farmers producing some one or combination of goods constitute a class with common interests is profoundly uneconomic. In order to work, it requires that each individual farmer act contrary to his own individual interest, that he regularly behave uneconomically. Undoubtedly, such behavior can sometimes be induced by large enough subsidies from taxpayers generally, but the program will nonetheless be a prescription for disaster. In any case, most farm programs range somewhere between subsidizing less than enough to induce uneconomic behavior and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

trying to alter market conditions sufficiently to keep farmers off the backs of politicians for a season. If farmers were paid enough from government revenues to induce them to behave uneconomically as a rule, the result would be starvation and bankruptcy for citizens generally. That is, farmers would cease to produce those goods that are most wanted in sufficient supply to feed us. On the other hand, government intervention in the market to increase farm income by higher production tends to produce a glut of goods at the subsidized prices.

Most commonly, over the years, government intervention has been concerned with price manipulation: to raise the price of farm products, to raise the price, i.e., wages, of farm workers, to lower the price of shipping, storage, and farm machinery (by encouraging cooperatives), and to lower the price of money, i.e., interest. These attempts at price manipulation have sometimes been accompanied by restrictions on land planted to particular crops, on amounts farmers could sell of a crop in the market, on numbers of cows, for example, that a dairy farmer could have in production, and so on. Raising the prices of farm goods tends to encourage farmers to produce more and to draw others into growing those crops. Raising the price of farm labor tends to encourage the greater use of machinery, as does a reduction in interest rates. Restriction of acreage tends to shift farmers to efforts to produce more on less acreage, and so on. Government intervention tends to produce an ever normal "Farm Problem."

In fact, production for the market is a business. This is true whether the good produced is wheat or widgets. The rules of economy apply to farmers as much as they do to service station operators. We create the "Farm Problem" by lumping farmers together unnaturally and perpetuate it by government intervention. The solution lies in treating farming as a business and allowing those who can do it effectively to do so without interference. □

IDEAS ON LIBERTY

FREEDOM AND SECURITY

When a man's property rights are protected, he is able to retain and enjoy in peace the fruits of his labor. This security is his main incentive, if not his only incentive, to labor creatively. If anyone were free to confiscate what the farmer had sown, fertilized, cultivated and raised, he would no longer have any incentive to sow or to reap.

Profit is the life blood of a free economy. The opportunity to make a profit (or the opposite, the discipline of possible loss) is the invisible hand, as it were, that guides production and distribution. And in guiding the economy to the satisfaction of society's needs, the profit system does what no central authority is capable of doing as well—even granting that the authority might be staffed by the most brilliant planners.

It is said at times that many are willing to trade freedom for security. Even if they were to receive that for which they traded, it would be a bad bargain. But the sad and frightening fact is that when a people seek to obtain security by turning over power and responsibility to government, they lose both freedom and security.

ED GRADY

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Information and the Economic Problem

Information is an invaluable tool in promoting social cooperation.

by Brent M. Johnstone

Mr. Johnstone graduated from the University of Texas at Austin in May of this year with a major in economics. He was editor-in-chief of *The Texas Review*, a conservative student journal of opinion.

This essay was a runner-up in The Foundation for Economic Education's 1985-1986 Freedom Essay Contest.

Information is the most precious good in the economy. Scarcer than platinum, more valuable than gold, it is one item of value to all participants in the marketplace. Buyers, conscious of limited budgets, search for information about low prices and high quality. Workers, wanting to support themselves and their families, search for information about jobs where their productivity, and thus their income, will be the highest. Entrepreneurs, in pursuit of profits, look for market opportunities where they can best satisfy people's needs and wants. Firms, seeking to maximize profits, search for the cheapest inputs of production and the most efficient production techniques.

Information, it will be seen, is the key to solving the economic problem. That problem is this: How do you get people to cooperate in the production of goods and services necessary to society? No one person or family can, beyond a bare subsistence level, produce everything it needs. People must rely on outsiders to help them get what they want: individuals who may very well live in different lands, worship different gods, speak different languages, and who may have very different goals, values, needs, and desires. These different people may very well even hate each other. How, then, can we get them to cooperate?

The obvious solution springs to mind: you *command* them to cooperate. A central board is set up to determine the needs of society and the best way to achieve them. Orders are given out and enforced; production is planned from the top down. It is, after all, the most obviously logical and efficient way to organize the efforts of individuals—is it not?—much as you might organize an army to conquer a city or ants organize themselves in the mound.

The economy of the Soviet Union is the best example of such a centralized state. All capital and all natural resources are owned by the state. The government plans all production as if the economy were one big firm. Through a plethora of plans, regulations, and directives, the state specifies how much will be produced—how many tons of steel, how many yards of cloth—and how much will be used in production: quantities of capital and labor to be deployed when, where, and how.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

There is little need to repeat the dismal record of the Soviet economy. The stories of chronic shortages of meat, dairy products, fruits, and many vegetables; of bribery, black markets, and corruption; of low productivity and slipshod labor have been well-reported. Soviet productivity is only 40 per cent of that in the United States. The typical worker in Moscow must work 53.5 hours a week just to provide a family of four with basic groceries—as opposed to 18.6 hours in a week in Washington or 24.7 hours in London. The Soviet press itself abounds with stories of new buildings which rapidly deteriorate or actually fall apart due to substandard construction.[1] The Soviets, living in one of the richest and potentially most productive agricultural areas in the world, must import grain from the West simply to feed themselves. As one student of the Soviet economy concluded, "Soviet planning has not proved seductive. No electorate has freely chosen a system like it, and none is likely to do so in the near future."[2]

There are many reasons for this poor performance. Part of the answer lies in the absence of private property. When a man's workshop and the fruits of his labor are not his, he is not likely to care about the quality of his work, or whether his job even gets done at all. But, if we stop our search there, we overlook another aspect: the information problem.

Very simply, it is beyond the capacity of one man, or even a board of men, to specify how much firms should produce or what they need in order to do so—to determine how many pigs are to be raised, how many buses to be run, how many mines to be dug, how many pairs of shoes to be sold. The amount of information needed to answer these questions—much less the foresight and logic to rationally reconcile competing interests and goals—is simply staggering. True, our board may, after much deliberation, devise an answer. But there is no guarantee (witness the Soviet example) that their plan will assemble the inputs of production in the most efficient way possible, or that the plan will provide the most efficient combination of outputs to satisfy consumers. If the Soviet model is any example, the result is likely to be very *in*efficient. The breadth and complexity of data are so great that no computer can successfully tackle it.

Solving the Problem

Yet the economic problem does get solved—efficiently, productively—every day without active government guidance and regulation. Pause for a moment and consider, as French economist Frederic Bastiat did a century ago, the enormous range of commodities that a major metropolitan city consumes in a single day—many of which, like food, are not produced in the city itself. The city's survival literally depends on the uninterrupted flow of such goods into the city. And yet no man or agency gives orders or even consciously plans to insure that enough food or clothes or gasoline will make it to the city that day. Nonetheless, these goods arrive daily in the approximately correct quantities—and the city survives.

"Imagination is baffled," wrote Bastiat, contemplating the Paris of his day, "when it tries to appreciate the vast multiplicity of commodities which must enter tomorrow in order to preserve the inhabitants from falling prey to the convulsions of famine, rebellion, and pillage. Yet all sleep, and their slumbers are not disturbed for a

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

single minute by the prospect of such a frightful catastrophe."[3]

No one plans; no one calculates; no one consciously tries to solve the economic problem for society—and yet the problem is solved. The relevant information is transmitted to the essential parties, and the necessary goods are produced and distributed. How can this happen?

Forty years ago Nobel laureate economist F. A. Hayek considered the problem. His insights are crucial to understanding how society may best solve the information problem.[4]

Hayek began by redefining the economic problem. *If* we possessed all the relevant information; *if* we had a given set of priorities and preferences; *if* we knew the full range of options before us, the economic problem would simply be one of logic. Given these facts, the answers would flow out inevitably and ineluctably: Who says A must say B.

The difficulty is, of course, that this is *not* the economic problem—at least as we face it in the real world. We do not have perfect information about our options or the means to achieve them. The knowledge which we need does not exist in a single mind; it is not even found in a single coherent and integrated form. It is only found in the dispersed bits of incomplete (and often contradictory) knowledge possessed by all the participants in the economy.

So, Hayek writes, "The economic problem of society is thus not merely a problem of how to allocate 'given' resources. . . . It is rather the problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge not given to anyone in its totality."[5]

The question is not whether there will be planning in an economy. The question is *who* will do it. Should it be done centrally by one agency for the whole economy, or by the individuals themselves by the processes of a free market? That question turns, from our perspective, on who is more likely to have the necessary and relevant knowledge (and who thus is better able to act on it): the state or the individual.

Time, Place, and Change

Classical liberalism argues that man is a rational and competent decision-maker, and that as such, in Adam Smith's words, "every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him."[6] Each individual has his own set of priorities; each knows, better than anyone else, his individual capacities and talents. He knows what he is and is not capable of. He alone knows the particular circumstances of his time and place.

Then there is the problem of change. To think of the economic problem in terms of allocating "given" resources is to assume that the world is static and unchanging. The cardinal fallacy implied in statist schemes of control, regulation, and planning, wrote Austrian economist Ludwig von Mises,

> is that they look at the economic problem from the perspective of the subaltern clerk whose intellectual horizon does not extend beyond subordinate tasks. They consider the structure of industrial production and the allocation of capital to the various branches and production aggregates as rigid, and do not take

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

into account the necessity of altering this structure in order to adjust it to changes in conditions. What they have in mind is a world in which no further changes occur and economic history has reached its final stage.[7]

Technology, the availability of natural resources, consumer tastes and preferences: all these things are constantly in flux. Change—intangible as it is—cannot be captured in statistical aggregates and computed. It cannot be predicted, and thus we cannot make accurate and reliable forecasts. No one knows when the next technological breakthrough, the next scientific discovery, the next consumer fad will strike. But just because we cannot predict such events does not mean that we can simply disregard them. On the contrary, the ability of the economy to generate new scientific and technological advances is crucial to economic progress. The ability of entrepreneurs to take advantage of new opportunities as they emerge, quickly and efficiently, is crucial.

A World of Change

The economic problem, then, takes on another dimension. Its solution requires rapid adaptation to change. The world is not static. The reports which greet the central planning committee in the morning may be obsolete by noon. In a world of change, it only follows that the ultimate decisions are best left to those familiar with the particular circumstances of time and place: those who know of the changes and of the resources available to meet them. Such problems by their nature cannot be solved by a central board which ponders for weeks and makes a decision. The answer is decentralization: decisions made not by the state but by individuals themselves.

But the decentralization of decision-making, Hayek points out, only solves part of the problem. It means only that the knowledge of the particular circumstances of time and place will be used. But our "man on the spot" has only his own limited but intimate knowledge of the facts of his immediate surroundings. How can information about *other* changes in *other* areas be communicated to him?[8]

One answer is the price system. In a free economy the price system serves as a means of communicating information to all parties in the marketplace about opportunity costs and the relative scarcity of goods and services. Prices are easy to understand and readily available. Buyers can efficiently use them to adjust to complex events a continent away.[9] Hayek explains:

> Assume that somewhere in the world a new opportunity for the use of some raw material, say tin, has arisen, or that one of the sources of supply of tin has been eliminated. It does not matter for our purpose—and it is very significant that it does not matter—which of these two causes has made tin more scarce. All that the users of the tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere, and that in consequence they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand, and switch resources over to it, and if the people who are aware of the new gap thus created in turn

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fill it from still other sources, the effect will rapidly spread throughout the whole economic system and influence not only the uses of tin, but also those of its substitutes and the substitutes of these substitutes, the supply of the things made of tin, and their substitutes, and so on, and all this without the great majority of those instrumental in bringing about these substitutes knowing anything at all about the original cause of these changes. The whole acts as one market, not because any of its members survey the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all.[10]

The Function of Prices

Prices inform people about the relative value and scarcity of literally hundreds of thousands of products and, in so doing, reduce decision-making down to the level of the syllogism. By observing market prices and adding to them their personal knowledge of circumstances and events, individuals can make competent decisions about the costs and benefits of alternative actions.[11]

The remarkable thing about this process is that people need to know very little—just the relative changes in the prices of the commodities themselves—in order to make the correct choice. A good becomes scarce and its price increases. Without any directives or regulations being passed—indeed, without any need for people to know the reason for the scarcity—people, because of the higher price, will take the right action: they will consume less of the good. And yet the solution is not produced by the judgment of one man with perfect knowledge of all the facts, but by the natural interaction of many individuals, each of whom has only partial knowledge. The price system, writes Hayek, "brings about the solution which . . . might have been arrived at by one single mind possessing all the information which is in fact dispersed among all the people involved in the process."[12]

The misfortune of this system is that it works so subtly and so well that people forget its existence, if they were aware of it at all. Thus, they are quick to replace the invisible hand of the marketplace with the visible hand of government trying to redirect the actions of people via regulation, tax policy, directives, plans, and orders: trying, as it were, to reinvent the wheel. Some of the best economic minds of this century—Oskar Lange and Abba Lerner, among others—have spent years trying to solve the economic problem with the visible hand of central planning, unaware that the problem already has been solved by the market. Indeed, the advocates of government planning are not only trying to solve a problem whose answer is already known, but their "solution" is necessarily an inferior one. As Hayek writes: "The problem is precisely how to extend the span of our utilization of resources beyond the span of the control of any one mind; and, therefore, how to dispense with the need of conscious control and how to provide inducements which will make the individual do the desirable things without anyone having to tell him what to do."[13]

The late G. Warren Nutter told this story: Suppose you have a sack of potatoes and want to make that sack as compact as possible. One way is to examine the size and shape of each potato, measure its dimensions, put those measurements into a computer, and try to deter-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mine mathematically how to fit the potatoes together in the smallest possible space. Anyone familiar with higher mathematics will realize the enormous complexity of this problem.

Another way to solve the problem is to give the sack a couple of shakes and let the potatoes settle in by themselves.[14]

There are many lessons in this parable. But the most important is probably this: Information is costly, and economic efficiency requires that we, as a society, economize on our use of knowledge. The great virtue of a market economy, as Nutter reminds us, is that "it mobilizes knowledge for the benefit of society far more cheaply and effectively than any conscious effort can."[15]

Perhaps in the static and ideal world of the economic theorist, government coercion can effectively organize the activities of society. But in the real world—a world in which we do not have perfect knowledge and where change is our only guarantee—government planning necessarily leads to failure. Only in an economy where individuals are free to make their own choices and where markets, and not governments, organize and coordinate the production of goods and services can the economic problem be successfully solved. In contrast to the airy dreams of the central planners, the marketplace really works, really helps live people with real-life problems. □

---

1. John Barron, *KGB Today: The Hidden Hand* (New York: Reader's Digest Press), 1983, pp. 10–12.
2. G. Warren Nutter, *Political Economy and Freedom* (Indianapolis: Liberty Press), 1983, p. 112.
3. Quoted by J. P. Gould and C. E. Ferguson, *Microeconomic Theory* (Illinois: Richard D. Irwin, Inc.), 5th ed., 1980, p. 409.
4. F. A. Hayek, "The Use of Knowledge in Society," *The American Economic Review* 35, September 1945, pp. 519–530.
5. Hayek, op cit., pp 519–520.
6. Adam Smith, *The Wealth of Nations* (New York: Modern Library), 1937, p. 423.
7. Ludwig von Mises, *Human Action* (Chicago: Contemporary Books), 3rd ed., 1963, p. 707.
8. Hayek, op cit., pp. 524–525.
9. A helpful discussion of the role of prices can be found in Edwin G. Dolan, *Basic Economics* (Illinois: Dryden Press), 2nd ed., 1980, Chapter 2, pp. 27–35.
10. Hayek, op cit., p. 526.
11. Dolan, op cit., p. 29.
12. Hayek, op cit., p. 526.
13. Hayek, op cit., p. 527.
14. Nutter, op cit., p. 115.
15. Nutter, op cit., pp. 115–116.

In Future Issues . . .

September

- "The Selling of Freedom" by Dennis L. Peterson
- "Lessons From Socialist Tanzania" by Sven Rydenfelt
- "To Deal With a Crisis: Government Program or Free Market?" by Robert Higgs

October

- "The Seven Deadly Fallacies of Bad Economics" by John K. Williams
- "Protectionism: The Myths" by J.R. Kearl
- "Protectionism and Agricultural Price Supports" by E.C. Pasour, Jr.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Failure of the "Middle Way"

The search for a "middle way" between the free market and socialism leads to the erosion of freedom.

by José Ítalo Stelle

José Stelle is a free-lance writer, editor, and translator, residing in Verona, New Jersey. This article is abridged from an essay, titled "Are Liberal Principles Still Relevant?"

The "middle way" between socialism and the free market is put forward as a "third system" that retains the virtues of both, but discards the disadvantages of each. It promises to replace "outmoded" liberal freedom by a new freedom under planning: freedom from want, poverty, and insecurity. In this "third system," civil and political freedom will be respected, but economic action will be subjected to intervention and control by government in order to "discipline" the prodigious forces of capitalism and to promote "social justice" by what is termed "a better distribution of income."

"Planning" in the strict sense of total control of society by the government has lost much of its appeal and has been rejected even by many of its former supporters. But in the second sense of a "middle way" between the free market and socialism it rules all contemporary democracies. Depending for much of its success on the remaining faith in "outmoded" liberal values such as even-handedness and fair play, its insidious plausibility and seeming avoidance of extremes has transformed it into an unassailable creed. Yet this creed, which rejects traditional liberal principles and proclaims its "scientific" pragmatism which would fashion a new and just society by a judicious combination of the best elements of the two opposing systems, has failed to deliver on its promise of political freedom, increased productivity and wealth, and greater peace and justice, and today poses a threat to the very survival of freedom and democracy.

The weakness of the "middle way" lies in the fact that regardless of the intentions of its advocates, principles have a way of making themselves felt. The "middle way" has been unable to combine freedom with planning because planning undermines the chief safeguard of liberty—the rule of law. Planning aims at particular results and must therefore reject general and permanent rules of law in favor of particular and ever-changing commands enforced by a bureaucracy with wide discretionary powers. It is unreasonable to suppose that such powers can be controlled when the success of the plan depends on their full exercise.

The hope that excesses of authority could be checked by the electoral process has proved futile. Planning requires detailed and expert knowledge of particular questions, a knowledge that politicians do not and cannot have. The result has been that in the "middle way" countries

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

planning has passed into the hands of experts and that political power has shifted from elected Assemblies to unelected bureaucracies. "Middle way" planning has thus acquired the essential characteristics of the totalitarian planning, precisely what the advocates of "freedom under planning" wished to avoid.

In a free market, economic decisions are largely based on prices which reflect the underlying forces of supply and demand. Prices function as signals informing both producers and consumers where best to employ their industry and capital. Price competition becomes a vital element of economic efficiency, adaptation to changed events is quick, the relationship of effort to reward is close, and economic order is insured.

Planning, however, does away with free prices, imposes wage and price controls, and determines production. Economic decisions are made without reference to efficiency or to consumer demand. This results in misallocation of resources, falling production, reduced wages and revenues, unemployment, and a lower standard of living.

The most serious failure of "the middle way" has been its inability to promote peace and justice. For the sake of "social justice," central planning must also determine the "just" relationship of effort to reward, that is, incomes in general. Individuals no longer control their standard of living. Worse, with a less productive economy and incomes that are increasingly determined by political power, energies previously devoted to economic pursuits become progressively employed in political action aiming at control of public resources.

This is both unjust and less conducive to peace. Special interest groups and lobbies will seek an unjust structure of privilege, ruling at the expense of society. Such a situation produces dissatisfaction and social conflict, as the belief in the possibility of justice perishes. Where no principles exist, force will eventually appear as the only road to order and justice.

In all democracies the attempt to tread a pragmatic way between liberalism and socialism has given rise, on the one hand, to calls for tougher socialist measures and, on the other (at least in most Latin American countries, but apparently also in France and the United States), to a reviling of both liberalism and socialism and an extolling of a "new" spiritual socialism, a "new" mystic order. The re-emergence of totalitarian or authoritarian regimes cannot be brushed aside.

The Guiding Function of Principles

As many historians remind us, freedom has endured only when liberal principles have governed public opinion. The guiding force of principles and free institutions allows for both freedom and order—that is, for infinite variability within a legal structure, making it possible for people to pursue their disparate goals with a minimum of friction.

The liberal principles of "law, liberty, and property" are not old-fashioned remnants of an earlier era. They are vital elements by which the nations that have practiced them, however imperfectly, achieved their present wealth and relative freedom.

Casting aside liberal principles in favor of a "middle way" can only lead to a gradual dissolution of the rule of law—the first step toward despotism. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Air Transportation: More Government = Less Safety

How the profit motive promotes safety.

by Harry P. Wolfe and John Semmens

Mr. Semmens is an economist for the Arizona Department of Transportation. The views expressed here are those of the author and do not necessarily reflect Departmental policy.

Mr. Wolfe is co-author of *Aviation Industry Regulation*, a recently published text in the field of air transportation.

More than 1900 people died in airline crashes in 1985. This "worst year" in civil aviation history has spawned strident demands for reregulation and more government involvement in the airline industry.

The notion that government involvement assures safety should have been eliminated by the Challenger Space Shuttle tragedy. The Space Shuttle program is a totally government controlled, multi-billion dollar undertaking. If bureaucracy and big spending could guarantee safety, this tragedy would not have happened.

Contrary to much of the current discussion which hints at the modest reduction of government controls over the airline industry as the source of increased accidents, the history of aviation demonstrates that government has more frequently created problems than solved them. The rather sorry record of government's role in aviation began before the first aircraft got off the ground.

As nearly everyone knows, the Wright brothers invented the first controllable airplane. Many people may be vaguely aware that this feat was accomplished without benefit of Federal aid. Few, however, are aware that government-funded efforts to develop a heavier-than-air flying machine prior to the Wright brothers' venture were a total failure.

In the period preceding the December 17, 1903 Wright brothers' triumph at Kitty Hawk, North Carolina, the U.S. government spent $70,000 on a grant to Dr. Samuel Langley to develop a heavier-than-air flying machine. The award of this grant followed standard bureaucratic procedures. Dr. Langley, director of the Smithsonian Institution, was one of the most renowned scientists of the time. When Dr. Langley became interested in investigating flight he was able to marshal tremendous technical and financial resources.

The selection of Langley as the recipient of government funding was technically unassailable. It was the type of decision that a well motivated government bureaucracy would make time and again. The credentials were impressive. The funding was more than adequate. Yet, despite the head start and more lavish budget enjoyed by Dr. Langley, it was the Wrights who succeeded.

On October 7, 1903, the aircraft developed by Dr. Langley's team was deemed ready for a test flight. The aircraft was to be launched

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

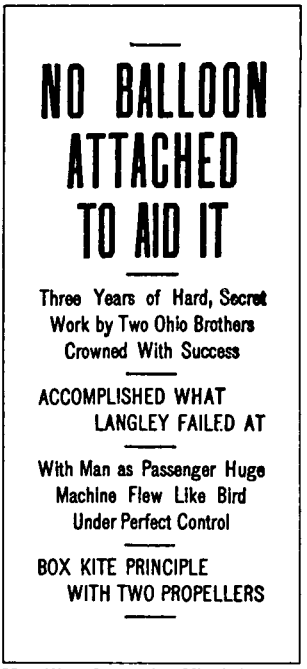
from a catapult on a houseboat in the Potomac River, with Charles Manly serving as pilot. Excitement filled the air as the houseboat reached the launch site. A large crowd gathered, fireworks were set off, and newspapermen jockeyed for position in the hope of witnessing the momentous occasion of man's first flight.

Hopes were raised and hearts quickened as the aircraft's engine roared to life. At full throttle the craft was released from restraint and lunged along the catapult track toward launch. A few seconds of glorious acceleration were followed by an unceremonious plunge into the Potomac by the would-be airplane.

The pilot and aircraft were salvaged and preparations were made for another flight. On December 8, 1903, with diminished fanfare, another test flight was attempted. Unfortunately the aircraft became entangled in the launching mechanism, was severely damaged, and toppled into the river.

Little more than a week later the Wright brothers successfully flew a heavier-than-air machine. Disappointed at being bested in the effort to develop an airplane, Dr. Langley, in a fashion that has come to characterize the persistent failure of government undertakings, laid much of the blame on "inadequate" Federal funding.

While Dr. Langley was engaged in epitomizing the typical government approach to problem solving, two young entrepreneurs were experimenting with their own airplane. The Wright brothers had no Federal money to support their research. Instead they used $2,000 of the money they earned from their bicycle business to develop their flyer. They worked on the flyer in their spare time while managing their bicycle shop. On numerous occasions the Wright brothers actually refused financial assistance from private contributors for fear that it would take them away from their business and make them complacent. Wilbur Wright told his father that the demands of his business forced him to be more cautious about the use of his time, and to carry out his experiments in the most expeditious manner possible.



NO BALLOON ATTACHED TO AID IT

Three Years of Hard, Secret Work by Two Ohio Brothers Crowned With Success

ACCOMPLISHED WHAT LANGLEY FAILED AT

With Man as Passenger Huge Machine Flew Like Bird Under Perfect Control

BOX KITE PRINCIPLE WITH TWO PROPELLERS

Headline from the *Virginian-Pilot*, December 18, 1903.

Conserving Limited Resources

If lavish Federal subsidies had been unable to buy Dr. Langley success, what chance would the Wright brothers' unfunded venture expect to have? Surprisingly, their chances were a lot better than might be imagined. Freed from the subsidy-induced waste and indolence that plagues government funded operations, the Wright brothers' limited financial resources actually contributed to their success. Because they could not afford the costs associated with repeated flight tests of their airplane, they developed a wind tunnel to test aerodynamic designs. This saved them a great deal of time. The Wright brothers were the first men to compile data from which an airplane could be designed. With limited finances, it was far easier to correct errors on paper than to continually rebuild a test model that was improperly designed.

The Wright brothers' use of the wind tunnel not only saved them time, but also their lives. Other airmen of the day were quick to flight-test inoperable aircraft, and lost their lives in the process. Orville and Wilbur Wright, on the other hand, did not believe in taking unnecessary risks. Wilbur Wright conducted his glider flights close to the ground in case an accident occurred. He didn't want to get hurt since a fall would interrupt his experimenting.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE
FREEMAN
AUGUST
1986

On December 17, 1903, only nine days after Langley's unsuccessful venture on the Potomac, the Wright brothers successfully launched their flyer from the dunes of Kitty Hawk, North Carolina. The longest flight lasted 59 seconds, traveled 852 feet, and ushered in the era of manned flight.

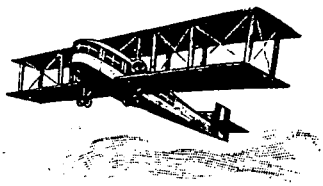
The contrast between the efforts of Dr. Samuel Langley and the Wright brothers is thought-provoking. Orville and Wilbur Wright spent $2,000 of their own funds and succeeded. Dr. Langley spent $70,000 in Federal funds and failed. Why were the Wright brothers successful, especially when they spent far less money than their government counterparts?

The Pursuit of Profit

The answer lies in part in the motivating force behind the Wright brothers' and Langley's efforts. The Wright brothers were motivated by the pursuit of profit. Langley was attempting to advance the "public welfare." While the profit motive suffers much derision at the hands of the economically ignorant, it is mankind's best known means of promoting productive use of resources. In contrast, the use of collective force in the name of altruistic goals has compiled a sorry record of waste, stagnation, and oppression.

The profit motive caused the Wright brothers to place a premium on minimizing the costs of their experiments, eliminating waste, and making the best use of their time. Langley, as a beneficiary of Federal largesse, had no real incentive to minimize his costs. In fact, the mark of success for a government research program is often measured in terms of the amount of money expended on the effort.

A few examples of the contrasting attitudes toward incurring expenses are indicative. No government undertaking can be expected to function without a staff of administrators. Dr. Langley, naturally, hired such a staff. The Wright brothers conducted their own research and hired no administrators. Dr. Langley spent a considerable sum on his houseboat launch facilities. The Wright brothers launched their airplane from a 60-foot track that cost $4 to construct.



It wasn't only the profit motive that made the Wrights cautious about the expenditure of funds. It was the fact that they were using their own money. People will be more careful when they are spending or investing their own hard-earned wealth. Wasting the "free money" from government grants is a lot easier. Using their own funds inspired the Wright brothers to be much more systematic in their experiments. For example, the Wrights perfected their aircraft's control system through hundreds of glider flights before they ever affixed a motor to the contrivance. Langley, on the other hand, attempted to master control over the machine and powered flight simultaneously.

Another reason that the Wright brothers' decision to use their own money contributed to their success was that it enabled them to maintain their independence. When money is bestowed, there are generally conditions attached. Many times, scientific curiosity must be sacrificed to fulfill the expectations of the government bureaucracy. Many of the unconventional theories and experiments carried out by the Wright brothers might never have been tolerated if they had been conducted under the eye of government administrators.

The sorry results of its early attempt to promote aviation have not

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

deterred government from subsequent meddling. Effective utilization of the technology of air travel is still retarded by government ownership and operation of the air traffic control network and the vast majority of airports. In addition to this direct interference, government imposes complicated regulations on air carrier operations.

These continued interventions of government in the aviation industry create red tape and divert scarce resources from more productive uses. Airlines, instead of being able to focus on efficiently providing air transportation, are forced to adhere to rigid bureaucratic rules.

Recent problems with airline safety, contrary to much of the media debate, have nothing to do with the 1978 deregulation of air routes and fare. Few media accounts accurately portray precisely what was and wasn't deregulated. Safety regulation was *not* changed by the 1978 Act. Any deficiencies in the area of airline safety are deficiencies under the *continued* government regulation of safety.

Fares, Routes, Safety

Let us compare the relative performances of the airline industry in the categories that were deregulated vs. those that were not. The deregulation of fares brought lower prices for consumers. The deregulation of routes brought more frequent and convenient service. It is safety—the one key aspect of air service that was retained under governmental authority—that appears to be underperforming.

This comparison of relative performances of fares and convenience (both deregulated) vs. safety (regulated) supports a conclusion directly opposite to that which is currently touted in fashionable circles. Namely, it is clear that discarding the benefits of deregulation by reintroducing government controls over fares and routes would do nothing for airline safety. To the contrary, it is becoming more obvious that the 1978 deregulation did not go far enough. If safety were also deregulated we would have the opportunity to enjoy the same kind of improved results that we've seen in fares and schedules.

Proponents of expanded government controls and coercion as the only reliable approach to improved safety scoff at the idea that a profit-hungry industry could monitor its own safety. But as we have seen from the earliest example contrasting public sector and private sector approaches, pursuit of profit is not in conflict with promotion of safety. After all, it was the non-profit motivated, government-funded Langley plane that crashed. It was the profit-seeking, privately funded Wright plane that safely achieved man's first flight.

That the profit motive would be a more effective means of promoting safety than an army of bureaucrats should be self-evident. Crashes cost money and drive up operating expenses—either to pay for damage and its consequences or to pay insurance premiums that will rise with a poor safety record. Crashes also disrupt business and scare away passengers. Profits will be hurt by either rising expenses or falling passenger revenues. Obviously, then, profit-seeking airlines have very strong economic incentives to conduct safe operations.

If we are to learn a lesson from the "worst year" in aviation history, let it be the right lesson. The air disasters of 1985 are evidence for less, not more, government involvement in aviation. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Privatization: The Rediscovery of Entrepreneurship

Responding to market incentives, rather than political pressures.

by William H. Peterson

Dr. Peterson is director of the Center for Economic Education and holds the Scott L. Probasco Jr. Chair of Free Enterprise at the University of Tennessee at Chattanooga.

This article is adapted from a lecture given at a conference on entrepreneurship at McNeese State University, Lake Charles, Louisiana. It is used with permission of the Intercollegiate Studies Institute, Inc., the sponsor of the conference.

Last February I participated in a conference on international privatization in Washington, along with some 500 others, mostly officials from the Third World. Perhaps surprisingly, the conference buzz-words turned out to be privatization and entrepreneurship.

I was struck by this seeming rediscovery of the world of Adam Smith and John Stuart Mill, and the fading from view of the world of Karl Marx and John Maynard Keynes. The trend is commendable, and I applaud it. But, alas, trends are reversible. And what irony, the trend seems more pronounced abroad than it does here in America. So the role of the private sector and the entrepreneur in preserving and expanding all over the world freedom and free enterprise, including the art of wealth-creation, has to be redefined and reaffirmed, in my judgment. To reassert an old homily, the price of freedom is eternal vigilance.

What is privatization? Privatization is a means of getting goods and services produced privately that were previously produced publicly. Sometimes it means the government will continue to finance the production of a good or service but with the private sector actually producing the good or service. One such practice is contracting out. Another such practice is giving individuals vouchers with which to purchase the good or service from private suppliers. Sometimes privatization involves the outright sale of state-owned enterprises to private investors. Sometimes it involves deregulation, the removal of legal restrictions on private provision of goods and services, and hence the allowing of a transition from a public or quasi-public to an unhampered private supply. A city's cancellation of a limited number of taxi licenses to open the cab business to all comers is a case in point.

What is entrepreneurship? While it is possible to think of public entrepreneurship (such as the conceptualization and establishment of Social Security and Medicare), to me entrepreneurship is a strictly private matter. It is the risk-assuming organization and management of an enterprise. It is the ever-present fourth and most indispensable factor of production beyond the other three of land, labor, and capital. Its quality makes or breaks the enterprise. It exists under the sover-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

eignty and suffrage of the consumer who has a life-and-death vote in the marketplace over the fate and viability of every enterprise. It is at the heart of productivity improvement, of getting more out of less. It is the *sine qua non* of freedom and free enterprise, of what Adam Smith called "the wealth of nations," of the manifestation of his famous "invisible hand" in action—of self-interest harnessed to the public interest, the common good.

At the Washington meeting, Secretary of State George Shultz told the group that privatization and entrepreneurship are indeed ideas whose time has come, that success in economic development is at base a matter of choice of competing economic philosophies, that Third World debt has to be increasingly replaced by Third World equity, that with private enterprise, with the emergence of private savings, private investment and the ubiquitous private entrepreneur, comes industrial efficiency, economic growth and rising living standards. Said Agency for International Development administrator Peter McPherson to the conferees: "Interest in reducing the public sector is a new phenomenon. It results from the pragmatic realization that statism has failed in most parts of the world."

The Failure of State Ownership

That failure is seen in the dashed hopes in state-owned enterprises and services around the globe. Guarded horror stories on state economic incompetency abounded at the conference, leading to the conclusion that state operation of enterprises leads to mismanagement of resources, low quality of products and services, reduced economic growth and even negative growth, capital flight to safer havens (most notably to Switzerland), forced migration of peoples (such as the waves of Mexicans and Central Americans across the U.S. border with Mexico), and frequent staggering financial losses. These losses have compounded the growing and precarious external debt load of developing nations at a magnitude currently estimated at $1 trillion.

(As Ludwig von Mises had long demonstrated, government intervention into peaceful private activity tends to make things worse rather than better. Adam Smith also would have been critical of the postwar worldwide splurge on the part of political leaders in nationalizing industries from communications to medicine, while admonishing citizens to curb their predilection for "private affluence" in the face of "a starved public sector"—to quote the verbiage of John Kenneth Galbraith. As Smith wrote in *The Wealth of Nations:*

> It is the highest impertinence and presumption . . . in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.)

At the Washington conference, I soon gathered that the solution to what I label "intervention failures" has increasingly been privatization—the return to private entrepreneurship, to what Hayek calls

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"spontaneous order." Countries around the globe are finding out anew that the production of government-provided goods and services can be well shifted to the private sector, with a practically immediate upgrade of quality and a reduction of cost, apart from other desirable results. I found that privatization—the re-emergence of the entrepreneur—has become a worldwide movement, with even communist countries along with socialist governments in places like Spain, Italy, France, and Sweden getting into the swing.

The People's Republic of China, for example, under the leadership of Vice-Chairman Deng Xaiopeng, has opened its economy to foreign investors through the aegis of joint ventures, with guarantees against expropriation of property and for repatriation of earnings. It has permitted its collective farmers to sell their "surplus," i.e., over-quota, produce in the cities and to keep the proceeds. It has permitted more than ten million small entrepreneurs to run restaurants, boutiques, repair shops, street stalls, and so on. Cuba is selling state-owned houses and apartments to tenants. Hungary, in the vanguard of privatization among communist states as well as its most affluent member, concedes the right of private entrepreneurs and capitalists to bid to the government to operate their own businesses, with the bidding falling on receptive ears. Poland authorizes more private farming, now around 40 per cent of the total.

Other privatization stories also abounded at the Washington conference. Pedro Pablo Kuczynski, formerly Peru's minister of energy and mines and now managing director of the First Boston Corporation, told the conferees how his company assisted Spain's socialist government to sell off more than 40 state-owned hotels. Canada plans to sell to private investors its two loss-making state-owned airframe manufacturers, Canadair and de Haviland, along with government mining businesses, including Eldorado Nuclear, a producer of uranium oxide. Also on the Ottawa government's for-sale list are Canadian Arsenal, an arms producer, and Teleglobe Canada, a firm handling overseas telephone calls. Said Robert R. De Cotret, chairman of Canada's Ministerial Task Force on Privatization, in announcing these privatizing moves (in a bit of understatement): "A key element of the government's commitment to good management is our policy for the privatization of commercial crown corporations which no longer fulfill a specific public policy purpose."

Privatization in Britain

The biggest privatizer of all countries, though, is Britain, home of a number of socialist governments, especially since the end of World War II. In his paper, *Privatization around the Globe: Lessons for the Reagan Administration,* conferee Peter Young of the Washington-based Adam Smith Institute-USA and the Dallas-based National Center for Policy Analysis, the publisher of the paper, reported that a "privatization revolution of enormous proportion" is taking place in Britain, transforming virtually the entire British economy. Last November, for example, British Telecom, a vast state-owned telephone and telegraph firm, was sold to the private sector in the largest public offering in history. Two million Britons snapped up shares. Jaguar, Britain's state-owned auto manufacturer, was also sold to the public. The Thatcher government has sold 100 per cent of its stock in British Sugar, 51 per cent of its stock in Britoil (North Sea

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

It is important to bear in mind that true privatization reaches beyond achieving efficiency and coping with deficit spending. It reaches into the nature of man, of human incentive.

oil exploration), 51 per cent of British Aerospace, about 40 per cent of its stock in British Petroleum, and has sold off subsidiary operations of British Steel, British Rail and British Airways. In addition, the British government has sold 873,000 public housing units—13 per cent of all British housing—to tenants. To date more than 400,000 jobs—almost one-third of the total in nationalized industries—have been shifted to the private sector.

While not so pronounced, similar privatization moves have been made in France, Italy, the Netherlands, West Germany, Sweden, Denmark, and Portugal. Turkey has sold off its Bosporus Bridge and the Keban hydroelectric dam. It is also planning to privatize more than 30 state-owned companies, including the state airline, THY.

In Africa, Kenya sold off its national fisheries. Somalia eliminated price controls and turned over its grain marketing facilities to private enterprise. Mozambique privatized its radiator factory and truck and railroad parts plant. Togo's minister of industry told me of his initial plans to privatize 12 of 70 state enterprises, including a steel mill capable of producing 50,000 tons of steel a year (with a local market of only 8,000 tons).

Japan is divesting itself of government-owned telephone, airline, and railroad systems. Already the partial sale of giant Nippon Telephone and Telegraph has brought billions of yen into the Japanese treasury. South Korea has unloaded onto the private sector many government banks and heavy-industry plants. Pakistan and Bangladesh are returning nationalized rice, flour, jute, and textile mills to their former proprietors. India and Malaysia are privatizing their highways. Sri Lanka has put up its telecommunications system for sale, and has sold off its bus system, once a monopoly of the Ceylon Transport Board.

Progress in America

In America, as I noted earlier, privatization has further to go than it has abroad, especially at the central government level. Even so, 35 per cent of all local governments now contract out residential garbage collection, 42 per cent contract out the operation and maintenance of their bus systems, and 80 per cent contract out vehicle towing and storage. Louisville, Kentucky sold its money-losing teaching hospital to a private hospital company in 1983, with the hospital today not only operating in the black but furnishing better patient care. Knoxville, Tennessee has privatized its residential garbage collection, with its mayor boasting of savings of around $1 million a year. Hamilton County, Tennessee has privatized its Silverdale prison, with

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the operator, the Corrections Corporation of America, charging Hamilton County $21 per prisoner per day instead of the $28 a day which the county had been incurring on its own. Scottsdale, Arizona has effected savings of around 50 per cent in fire-fighting costs through its contract with Rural Metro Fire Department, Inc.

And so it goes in municipal America. Private companies have contracted with city governments to control traffic, repair streets, provide ambulance service, effect crime control, maintain and clean public buildings, furnish water service, manage cemeteries, parks, museums, tennis courts, golf courses, liquor stores, auditoriums, hospitals, arts and cultural centers, and even entire city governments. The town of La Mirada, California, for example, has utilized the private sector for virtually all its key services, including social welfare, public works, and police and fire protection.

Privatization at the municipal level, and recent proposals to privatize state and Federal services, can be viewed as an encouraging move toward the free market. But a few words of caution may be in order. Much of what is being touted as privatization may, in time, extend the powers of government.

Consider, for example, the contracting out of "public" services. When a privately owned firm, which previously served only the private sector, receives a government contract, its relationship with the government necessarily changes. This is especially true if the firm receives a franchise—a monopoly privilege. Government funding brings government control, and the government contractor may soon find himself responding to political pressures, rather than market incentives.

It is important to bear in mind that true privatization reaches beyond achieving efficiency and coping with deficit spending. It reaches into the nature of man, of human incentive. As Peter Drucker noted in his new book, *Innovation and Entrepreneurship:*

> The most entrepreneurial, innovative people behave like the worst time-serving bureaucrats or power-hungry politicians six months after they have taken over the management of the public service institution, particularly if it is a government agency. The forces that impede innovation in a public service institution are inherent in and integral to it and inseparable from it.

Ludwig von Mises put the matter even more forcefully, tying the issue to human liberty, in his 1944 classic, *Bureaucracy:*

> There are two methods for the conduct of human affairs within the frame of human society. One is bureaucratic management, the other is profit management. . . . The main issue in present-day social and political conflicts is whether or not man should give away freedom, private initiative, and individual responsibility and surrender to the guardianship of a gigantic apparatus of compulsion and coercion, the socialist state. Should authoritarian totalitarianism be substituted for individualism and democracy? Should the citizen be transformed into a subject, a subordinate in an all-embracing army of conscripted labor, bound to obey unconditionally the orders of his superiors? Should he be deprived of his most precious privilege to choose means and ends and to shape his own life? □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Witnesses at the Creation

by John Chamberlain

The 200th anniversary of the writing of the Constitution in 1787 is almost upon us. With its checks and balances, its provision for the minority rights of states and individuals, as well as for a protection of the whole when it comes to defending the Federal borders, the document has lasted longer than any other written constitution of our time.

What makes the Constitution unique is fully explained by Richard B. Morris of Columbia University in *Witnesses at the Creation: Hamilton, Madison, Jay, and the Constitution* (New York: Holt, Rinehart and Winston, 279 pp., $16.95). The document was the handiwork of fifty-five men who, in the steaming hot summer of 1787, met in the State House of Philadelphia in secret sessions behind closed doors. Exceeding their instructions to do nothing more than amend the Articles of Confederation that bound in loose embrace the thirteen states that had fought the revolution, the fifty-five delegates came up with something that was part nationalistic, part federative, and part a defense of the inalienable rights of individual citizens.

Fortunately James Madison of Virginia kept a meticulous record of deliberations that went on for four months. It was Madison who, as a bait for acceptance by the states, promised the Bill of Rights that defined freedom of the press and religion and guaranteed life, liberty, and property (the traditional "rights of Englishmen") to anybody who was free born. (The founders had to get around the issue of slavery somehow, which they did by postponing the abolition of the slave trade and leaving black manumission up to the states.)

In 1787 the thirteen states, stretched out along the Atlantic seaboard, were struggling with depression. The farmers of the back country, oppressed by their debts, had taken to open rebellion. States were printing their own paper money, which quickly became worthless. There was no uniformity of import duties, and the states were setting tariffs against each other. John Jay of New York had negotiated a good treaty of peace with Britain, which extended the so-called Northwest Territories to the banks of the Mississippi. But the British were slow to evacuate territory beyond the Appalachians. Meanwhile the Barbary Pirates of North Africa, the Qaddafis of their day, were seizing American ships and holding their crews for ransom.

The times were ripe for a government that would be empowered to col-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lect the taxes needed to pay for an army and to build a navy capable of dealing with pirates. There were plenty to believe, with Alexander Hamilton, that a federal government should assume the debts of the states and take responsibility for a national currency. And the abolition of internal tariffs seemed as necessary to commerce as the building of bridges across rivers that obstructed north-south travel. But, though all the objective circumstances favored the quick ratification of the Constitution, which gave small states such as Delaware equal representation in the upper legislative chamber with the big states of New York and Pennsylvania, there was a considerable ground swell in favor of sticking to the old Articles of Confederation.

It was to combat the ground swell that Hamilton, Madison, and Jay undertook to write the Federalist Papers, which were presented to newspaper readers as the works of "Publius." Thomas Jefferson, writing to Madison, praised the Federalist Papers as "the best commentary on the principles of government which ever was written." Much of Morris' book is devoted to sustaining Jefferson's judgment. The portraits and life stories of Madison, Hamilton, and Jay are excellent.

Modern Applications

Our Secretary of Education, William Bennett, has been making it a practice of giving lectures to students on the Federalist Papers. Their importance to American history is obvious. But who, in our political science faculties, has seen fit to apply the thinking of Hamilton, Madison, and Jay to the struggles of the outer world to achieve nationhoods that might solve their economic problems without infringing the rights of individuals?

The question of South Africa leaps immediately to mind. Here we have a collection of tribes, including the white tribe of the descendants of the Boer trekkers. The Zulus, 6 million strong, are one of the biggest tribes. They don't want to entrust their fortunes to any "one man-one vote" majority of lesser tribes any more than the white tribe of President Botha wants to submit property and business rights to the whims of 51 per cent of a black vote bent on expropriation.

If there were a South African James Madison, he would be counseling his countrymen, black and white, to regard the separate tribes as the equivalent of the thirteen states of federalist America. There would be "one man-one vote" for taxation and foreign policy purposes, and for the election of a president. But property rights would remain vested with tribes and individuals.

The genius of Hamilton, Madison, and Jay resided in their ability to limit "one man-one vote" democracy to such things as funding the national debt, building forts on borders, paying the army, regulating internal commerce, levying tariffs, and providing for a court system and the election of representatives. But "life, liberty, and the pursuit of happiness" were beyond the vote, and property could not be taken without "due process."

There is no reason why this way of thinking can't be applied everywhere. Let the year 1987 be given over to it. □

Audio Classics—The Wealth of Nations

Script by George H. Smith

Knowledge Products, 120 Tremont Street, Boston, Massachusetts 02108; toll free, 800-453-9000, ext. 400
4 cassettes, $39.95; $170 prepaid for 24 cassette series

Reviewed by Howard Baetjer Jr.

Cassettes will not replace books, but they give the literature of liberty an exciting new dimension. Scholarly discussions of classic works of political philosophy are now

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

available on tape. "Audio classics" is a professionally produced, attractively packaged series of 24 cassettes presenting the ideas of thinkers whose books have shaped the modern world. If the four tapes on Adam Smith's *Wealth of Nations* are representative, the series is a worthwhile investment for anyone who would like to supplement the printed page.

The *Wealth of Nations* tapes begin with a biographical sketch of Smith, the historical context in which he wrote, and the influence of his experience and acquaintances. The narrator outlines the structure, major points and purposes of the book. George Smith's elegant script is written in accessible language, which clarifies difficult points without being patronizing or oversimplified. This is important for tape format, in which rereading is impossible. (Rewinding is, of course, but I rarely needed to do that.)

The presentations are clearly organized. Different sections are separated by music, and the script contains transition passages describing the relation of one section to another. The narrator reads in a slow, clear, expressive voice. A helpful and entertaining aspect is the use of voice characterizations for quotations from Smith and other historical figures (including Samuel Johnson, James Boswell, David Hume, Adam Ferguson, Jean Baptiste Say, and others). Not only do these characterizations give the listener a feeling of "being there," but also they obviate any confusion as to what is narration and what is quotation.

The content is interesting and admirably complete. The four tapes, each between sixty and eighty minutes in length, provide about five hours of detailed and varied listening.

The tapes effectively debunk the criticisms that have been leveled at Adam Smith, especially that he was an apologist for exploitative big business. They make clear that while Smith was an advocate of capitalism, he was a severe critic of some contemporary businessmen. That is, he was dedicated to the truly free economy, which leads to the well-being and prosperity of all people. Smith criticized those capitalists who pursued government privileges for themselves at the expense of consumers and their competitors.

In his book, Adam Smith strongly criticizes mercantilism, that system of bounties, monopolies and restrictions on trade which beset Britain at the time. Smith intended *The Wealth of Nations* to guide public policy away from mercantilism and toward free trade. The tapes distinguish Smith's view of national wealth as the real income of all the people of the nation, which increases under a policy of free trade, from the mercantilist view of national wealth as the riches of the state or government, toward which mercantilism was directed.

Smith's concern for the common man, who has no access to political power and privilege, informs the whole presentation. Smith was a professor of moral philosophy; his primary concerns were justice and fairness. He advocates the free market chiefly in concern for justice to the common man and equality under the law.

Listening to these tapes is no substitute for reading *The Wealth of Nations,* but for those who don't have the time to read it, they are a wonderful second choice. They provide instruction while one is restricted to one's car or otherwise unable to read. And when one returns to the original, he will find it much more accessible after hearing this fine introduction. The listener will delight in Smith's language, the clarity of his insights, and the pertinence of his thought to the present day. Hearing Smith's own words, read in an engaging Scottish brogue, one is reminded that classics are classics not because they are old, but because they are great. □

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The Farm Problem

20 chapters—17 authors

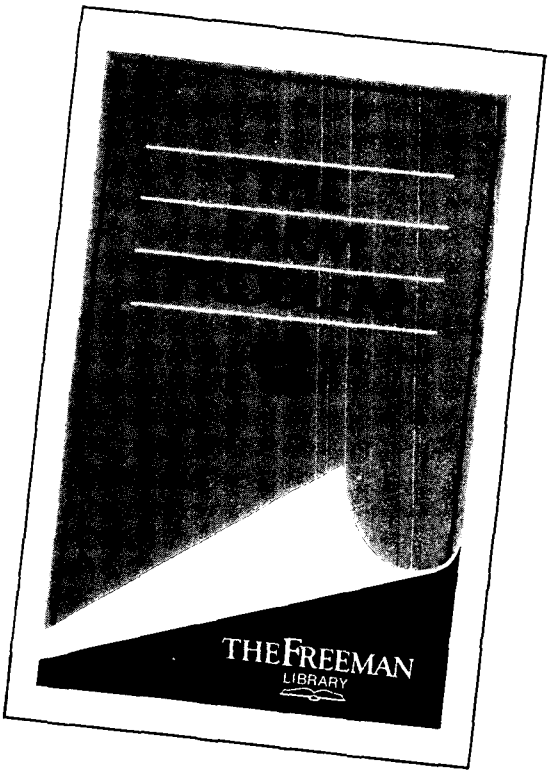
"For over two thousand years of history, in nearly all countries except our own, the farm problem has been at different times the center of such troubles that bloody revolutions have resulted. . . "

So observed the noted agricultural economist Dr. Karl Brandt in a *Freeman* article a generation ago. And in the interval since, conditions have deteriorated. Indeed, the subject is of such urgency as to be chosen the 1986 national high school debate topic in the United States.

Over the years *The Freeman* has examined the matter from the view of many authors—farmers, merchants, consumers, historians, economists. The problem is studied in its historic perspective, its domestic impact, foreign implications, and prospects for its resolution.

The result is an outstanding and constructive analysis of one of the most important political and economic issues of our time. Here is the evidence of the failure of the welfare state idea as applied in a major segment of the economy.

The Farm Problem, 144 pages, is the second of the "issues" studies in **The Freeman Library** series. The first volume, on **Free Trade,** also is available at $5.95.



Order from:
The Foundation for Economic Education
Irvington-on-Hudson, N.Y. 10533

FEE pays the postage if payment accompanies order.

Softcover $ 5.95

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Ideas on Liberty

A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial influences which are at its disposal. The unnatural way of spreading ideas must be opposed by the natural one, which goes from man to man and relies solely on the truth of the thoughts and the hearer's receptiveness for new truth. . . .

ALBERT SCHWEITZER

Where have you been? If you've just discovered THE FREEMAN and have found some helpful ideas, you may want to see our studies regularly. If so, just use the form below to reserve your place on our mailing list. (Any individual in the United States is added at his request. For foreign delivery, extra mailing costs require a charge of $10.00 a year.)

Where are you now? If you're already on the mailing list, but have a new address, please use this form to let us know of the change and to minimize any delays in delivery.

Sorry, this is not a mailing card; please enclose in a stamped envelope.

THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
IRVINGTON-ON-HUDSON, NEW YORK 10533

☐ Please add my name to receive THE FREEMAN, a monthly study journal of free market, private property, limited government ideas and ideals; plus NOTES FROM FEE, a 4-pager devoted to libertarian methods, issued every other month.

☐ Please change my address, as follows.

Name _____ (Please print)

Street _____

City _____ State _____

Zip Code _____

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"The most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself."

—BENJAMIN A. ROGGE
"The Case for Economic Freedom"

THE FOUNDATION FOR
ECONOMIC EDUCATION, INC.
30 South Broadway
Irvington-on-Hudson, NY 10533

Non-profit organization
U.S. POSTAGE
PAID
Foundation for
Economic Education, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED